

ALPENA HOUSING COMMISSION
ALPENA, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Alpena Housing Commission	County Alpena
Fiscal Year End December 31, 2006	Opinion Date May 8, 2007	Date Audit Report Submitted to State May 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

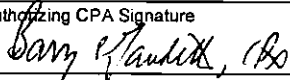
We further affirm the following material. "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Control	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	Zip 49686
		License Number 11050	

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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Alpena Housing Commission
Alpena, Michigan

I have audited the accompanying financial statements of the business-type activities of the Alpena Housing Commission, Michigan, a component unit of the City of Alpena, as of and for the year ended December 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Alpena Housing Commission, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Alpena Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated May 8, 2007, on my consideration of Alpena Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Alpena Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Sandy E. Jandrich, CPA, PC

May 8, 2007

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
December 31, 2006

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Alpena Housing Commission, created in 1951, by the City of Alpena, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Alpena Housing Commission consists of two programs. The first is owned housing, consisting of 195 units of public housing and the second is the capital funding program. Alpena Housing Commission had total revenues of \$902,574 that includes \$427,211 in rental payments and \$417,379 in federal assistance. Total operating expenses were \$1,042,999, that includes \$239,179 in administrative expenses, \$146,059 in utilities, \$253,316 in ordinary maintenance expenses, and \$335,108 in depreciation expense. Total revenues decreased by \$268,003 from the prior year and operating expenses increased by \$27,436 from the prior year for a net decrease of \$295,439, due in part to the decrease in federal grants of \$300,462. Also, the increase of \$25,149 in administration expenses was caused by wages increasing \$21,406 and travel/training expenses increasing by \$6,129 over the prior year. The increase of \$14,974 in ordinary maintenance and operation was due in large part by wage increases of \$11,291.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,888,688. The Housing Commission's total net assets decreased by \$137,305 from the prior year. The decrease is attributable in part to the depreciation expense of \$335,108 being more than the actual capital outlay of \$85,298.

Total assets of the Housing Commission were \$3,989,107 including \$970,452 of current assets and \$3,018,655 of capital assets. The Housing Commission had current liabilities of \$100,419.

The financial condition of the Housing Commission continues to improve.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The financial condition of the Alpena Housing Commission has improved from the prior year. Operating Reserves for FYE 2006 increased by \$109,384. There was no loan activity in 2006. For the year ending 12/31/2006 the Alpena Housing Commission spent approximately \$69,641 in capital improvements. The main project was the replacement of windows at the Kurrasch apartments(MI022). In 2007 the Alpena Housing Commission will be remodeling the bathrooms at Riverview Apartments. The security system will be upgraded at the Riverview Apartments, which will include installation of additional cameras for the exterior of the building. A new plow truck will be purchased for commission wide use. The parking lots at the Copping apartments will be resurfaced in 2007. Perimeter fencing will be upgraded in all developments during the summer of 2007. The elevator controls will be replaced at both Riverview and Fowler apartments in 2007. The lawsuit which was pending in 2006 was dismissed by the plaintiff at no cost to the Alpena Housing Commission.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

James J. Stosik, Executive Director
2340 South 4th Street
Alpena, Michigan 49707-3027

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 970,452	\$ 857,147	\$ 113,305
Capital assets	<u>3,018,655</u>	<u>3,269,265</u>	<u>(250,610)</u>
Total assets	<u>\$3,989,107</u>	<u>\$4,126,412</u>	<u>\$ (137,305)</u>
Current liabilities	\$ 100,419	\$ 97,299	\$ 3,120
Total liabilities	<u>100,419</u>	<u>97,299</u>	<u>3,120</u>
Net assets:			
Invested in capital assets	3,018,655	3,269,265	(250,610)
Unrestricted net assets	<u>870,033</u>	<u>759,848</u>	<u>110,185</u>
Total net assets	<u>3,888,688</u>	<u>4,029,113</u>	<u>(140,425)</u>
Total liabilities and net assets	<u>\$3,989,107</u>	<u>\$4,126,412</u>	<u>\$ (137,305)</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of revenues, expenses and changes in fund net assets of the Housing Commission for the years ended December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 427,211	\$ 411,004	\$ 16,207
Nondwelling rent	<u>8,624</u>	<u>16,224</u>	<u>(7,600)</u>
Total operating revenues	<u>435,835</u>	<u>427,228</u>	<u>8,607</u>
Operating expenses:			
Administration	239,179	214,030	25,149
Tenant services	8,912	5,646	3,266
Utilities	146,059	137,221	8,838
Ordinary maintenance and operation	253,316	238,342	14,974
General expenses	60,425	60,664	(239)
Extraordinary maintenance		9,556	(9,556)
Depreciation	<u>335,108</u>	<u>350,104</u>	<u>(14,996)</u>
Total operating expenses	<u>1,042,999</u>	<u>1,015,563</u>	<u>27,436</u>
Operating income(loss)	<u>(607,164)</u>	<u>(588,335)</u>	<u>(18,829)</u>
Non-operating revenue:			
Interest income	33,097	17,682	15,415
Other income	16,263	7,826	8,437
Operating grants	371,647	424,193	(52,546)
Capital grants	<u>45,732</u>	<u>293,648</u>	<u>(247,916)</u>
Total nonoperating revenue	<u>466,739</u>	<u>743,349</u>	<u>(276,610)</u>
Change in Net Assets	<u>\$ (140,425)</u>	<u>\$ 155,014</u>	<u>\$ (295,439)</u>

FINANCIAL STATEMENTS

ALPENA HOUSING COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006
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ASSETS

Current Assets:

Cash	\$ 856,271
Accounts receivable-miscellaneous	2,444
Accounts receivable-dwelling rents	4,092
Allowance for doubtful accounts	(83)
Accrued interest receivable	29
Investments-unrestricted	100,000
Prepaid expenses	4,025
Inventories	<u>3,674</u>

Total Current Assets	<u>970,452</u>
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Capital Assets:

Land	196,414
Buildings	7,185,085
Equipment	425,286
Building improvements	956,462
Construction in progress	<u>409,426</u>

	9,172,673
Less: accumulated depreciation	<u>(6,154,018)</u>

Net Capital Assets	<u>3,018,655</u>
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Total Assets	<u><u>\$ 3,989,107</u></u>
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See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 46,770
Tenant security deposit liability	24,752
Accrued expenses	20,471
Deferred revenues	<u>8,426</u>
Total Current Liabilities	<u>100,419</u>
Net Assets:	
Invested in capital assets	3,018,655
Unrestricted net assets	<u>870,033</u>
Total Net Assets	<u>3,888,688</u>
Total Liabilities and Net Assets	<u>\$ 3,989,107</u>

See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS

Year Ended December 31, 2006

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OPERATING REVENUES:

Dwelling rent	\$ 427,211
Nondwelling rent	<u>8,624</u>

Total operating revenues	<u>435,835</u>
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OPERATING EXPENSES:

Administration	239,179
Tenant services	8,912
Utilities	146,059
Ordinary maintenance and operation	253,316
General expenses	60,425
Depreciation	<u>335,108</u>

Total operating expenses	<u>1,042,999</u>
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Operating income(loss)	<u>(607,164)</u>
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NONOPERATING REVENUES:

Investment interest income	33,097
Other income	16,263
Operating grants	371,647
Capital grants	<u>45,732</u>

Total nonoperating revenues	<u>466,739</u>
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Change in net assets	(140,425)
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Prior period adjustment	(800)
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Net assets, beginning	<u>4,029,913</u>
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Net assets, ending	<u>\$ 3,888,688</u>
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See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 437,237
Cash payments to other suppliers of goods and services	(304,742)
Cash payments to employees for services	(370,102)
Cash payments for in lieu of taxes	<u>(26,877)</u>
Net cash (used) by operating activities	<u>(264,484)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	742
Operating grants	371,647
Other revenue	<u>13,819</u>
Net cash provided by noncapital financing activities	<u>386,208</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Capital grants	45,732
Payments for capital acquisitions	<u>(85,298)</u>
Net cash (used) by capital and related financing activities	<u>(39,566)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>33,494</u>
Net cash provided by investing activities	<u>33,494</u>

Net increase(decrease) in cash	115,652
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Cash, beginning	<u>740,619</u>
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Cash, ending	<u><u>\$ 856,271</u></u>
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ALPENA HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2006
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RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ <u>856,271</u>
Cash and cash equivalents per balance sheet	\$ <u><u>856,271</u></u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(607,164)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	335,108
Bad debt allowance change	(265)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(1,076)
Prepaid expenses	142
Inventories	5,593
Increase (decrease) in liabilities:	
Accounts payable	(1,277)
Accrued compensated absences	986
Accrued payments in lieu of taxes	991
Deferred revenues	<u>2,478</u>
Net cash (used) by operating activities	\$ <u><u>(264,484)</u></u>

See notes to financial statements

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Alpena Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Alpena Housing Commission is a component unit of the City of Alpena, a Michigan Home Rule City. The Housing Commission is a Public Housing Agency created by the City of Alpena on February 26, 1951, consisting of a five member board appointed by the City manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Alpena Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract, C-3032, the Housing Commission constructed, maintains and operates 195 units of subsidized housing in the City of Alpena, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic

resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Alpena Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$100 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	5 - 40 years
Buildings	7 - 40 years
Building improvements	5 - 40 years
Dwelling equipment-nonexpendable	7 years
Furniture, equipment-administration	5 - 10 years
Nondwelling structures	3 - 10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave shall be taken in the year after the year in which it was earned, unless otherwise specifically approved by the Executive Director in writing. An employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave.
- * Sick leave, an Employee may accumulate a maximum of one hundred twenty (120) days. No sick leave shall accumulated beyond the one hundred twenty(120 days). An Employee who has accumulated beyond the one hundred twenty (120) days is eligible to receive fifty percent (50%) of that time upon death or retirement; payment will be made at the Employee's most recent rate of pay.
- * Personal leave, there is not a policy for personal leave, other than leave without pay, not to exceed one month in any one calendar year, may be granted by the Executive Director.

The amount of accumulated benefits at December 31, 2006, was \$20,471, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$855,981 and the bank balance was \$880,541 of which \$400,000 was covered by federal depository insurance and a collateral agreement. The Housing Commission has \$50 in petty cash and \$240 in a change fund.

Investments

The Housing Commission had the following investment at First Federal bank as of December 31, 2006:

Certificate of deposit \$ 100,000

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | |
|-------------------------------------|------------|
| 1. U.S. Treasury Notes | - 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - 75% and |
| 3. Mortgage Backed Securities | - 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 290
Carrying amount of deposits	855,981
Investments	<u>100,000</u>
Total	<u>\$ 956,271</u>
Cash and cash equivalents:	
Enterprise activities	\$ 980,831
Enterprise activities - checks written in excess of deposits	<u>(24,560)</u>
Total	<u>\$ 956,271</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2006, the receivables were \$4,092 with \$83 estimated as uncollectible. Bad debt expense was \$1,465.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund payables to the Low Rent Program from the Capital Fund Program as of December 31, 2006

There was an individual fund operating transfer during the fiscal year of \$23,909 from the capital fund program to the low rent program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/06</u>
Low Rent Program				
Land	\$ 196,414	\$	\$	\$ 196,414
Buildings	6,938,230	246,855		7,185,085
Furniture, equip. & machinery - dwellings	108,447	20,640		129,087
Furniture, equip. & machinery - administration	277,438	18,761		296,199
Building improvements	<u>947,232</u>	<u>9,230</u>		<u>956,462</u>
	8,467,761	<u>\$ 295,486</u>	<u>\$</u>	8,763,247
Less accumulated depreciation	(<u>5,783,851</u>)	<u>\$ (370,167)</u>	<u>\$</u>	(<u>6,154,018</u>)
Total	<u>\$ 2,683,910</u>			<u>\$ 2,609,229</u>
Capital Fund Program				
Buildings	\$ 236,520	\$	\$ 236,520	\$
Furniture, equip. & machinery - administration	19,400		19,400	
Construction in progress	<u>364,494</u>	<u>44,932</u>		<u>409,426</u>
	620,414	<u>\$ 44,932</u>	<u>\$ 255,920</u>	409,426
Less accumulated depreciation	(<u>35,059</u>)	<u>\$ ()</u>	<u>\$ 35,059</u>	
Total	<u>\$ 585,355</u>			<u>\$ 409,426</u>
Combined Totals				<u><u>\$ 3,018,655</u></u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 3,269,265
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	(<u>250,610</u>)
Balance, ending	<u><u>\$ 3,018,655</u></u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission participates in the City of Alpena Employees Retirement System. The pension plan is a defined benefit plan. For the Housing Commission eligibility is Age 60 with 5 years of service, or age 55 with 15 years of service. The annual amount is 2.1% of final average compensation times total service. The type of final average compensation is the highest 24 months out of last 5 years, need not be consecutive, but must be in units of 12 consecutive months each. Member contributions for the Housing Commission is 1.0% of annual compensation. The employer contributions are actuarially determined and for the valuation date 12/31/2006 employer contributions of 4.26% will be required. The actual unfunded actuarial liability for the plan was \$1,793,770 (UAAL) as of December 31, 2006. The actuarial accrued liabilities (AAL) was \$26,311,210 as of December 31, 2006. The market value of assets as of December 31, 2006 was \$27,572,224. The reported revenues were \$2,618,084 and expenditures \$1,731,847 for the year ended December 31, 2006.

Further details are available from Alpena Housing Commission, 2340 South 4th Street, Alpena, MI 49707-3027.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**D. Prior Period Adjustments, Equity Transfers and
Correction of Errors**

Low Rent Program

Transfer completed 501-03 CFP to Low Rent \$ 220,861

Capital Fund Program

To correct CFP item previously recorded
as Const. in Progress-item is actually
a soft cost \$(800)

Transfer completed 501-03 CFP to Low Rent (220,861)

\$ (221,661)

E. Post-retirement Benefits Other Than Pensions

The Alpena Housing Commission will pay 75% of a retired employee's individual cost of health insurance coverage subject to the following: For salaried administrative employees with at least 15 years of City service, the percentage is 100%, also subject to the following: The Alpena Housing Commission will pay the first 5% of any premium increase in each year after the employee retires. Any increase above 5% in the year, will be paid by the retiree. The monthly insurance payment for a retired employee's individual cost of health insurance coverage will be paid whether the retiree has coverage through the City's medical insurance plan or not, subject to the same limitations on the annual increases. Employees who retire will have the same health care insurance as active employees unless retiree chooses lower coverage available through an existing retiree health insurance suffix; except if the City switches to a high deductible health insurance plan with the Alpena Housing Commission paying or reimbursing employees for the high deductible through a medical reimbursement plan, such as health savings account, health reimbursement account, or similar account, then the retiree shall have the option to remain with his/her current coverage or switch to the high deductible plan.

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2006, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	\$ 970,452	\$
Capital assets	2,609,229	409,426
Total assets	<u>\$ 3,579,681</u>	<u>\$ 409,426</u>
Current liabilities	<u>\$ 100,419</u>	<u>\$</u>
Total liabilities	100,419	
Net assets:		
Invested in capital assets	2,609,229	409,426
Unrestricted net assets	870,033	
Total net assets	<u>3,479,262</u>	<u>409,426</u>
Total liabilities and net assets	<u>\$ 3,579,681</u>	<u>\$ 409,426</u>
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets		
Dwelling rent	\$ 427,211	\$
Nondwelling rent	8,624	
Depreciation	(335,108)	
Other operating expenses	(707,891)	
Operating(loss)	(607,164)	
Nonoperating revenues:		
Investment interest income	33,097	
Other income	16,263	
Operating transfers in (out)	23,909	(23,909)
Operating grants	347,738	23,909
Capital grants		45,732
Change in net assets	(186,157)	45,732
Prior period adjustments, equity transfers and correction of errors	220,861	(221,661)
Beginning net assets	3,444,558	585,355
Ending net assets	<u>\$ 3,479,262</u>	<u>\$ 409,426</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$ (264,484)	\$
Noncapital financing activities	386,208	
Capital and related financing activities	(39,566)	
Investing activities	33,494	
Net increase(decrease)	115,652	
Beginning cash and cash equivalents	740,619	
Ending cash and cash equivalents	<u>\$ 856,271</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
December 31, 2006
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 856,271	\$
Accounts receivable-miscellaneous	2,444	
Accounts receivable-dwelling rents	4,092	
Allowance for doubtful accounts- dwelling rents	(83)	
Accrued interest receivable	29	
Investments-unrestricted	100,000	
Prepaid expenses	4,025	
Inventories	<u>3,674</u>	
Total current assets	<u>970,452</u>	
Capital assets:		
Land	196,414	
Buildings	7,185,085	
Equipment	425,286	
Building improvements	956,462	
Construction in progress		<u>409,426</u>
	<u>8,763,247</u>	409,426
Less accumulated depreciation	<u>(6,154,018)</u>	
Net capital assets	<u>2,609,229</u>	<u>409,426</u>
Total Assets	<u>\$ 3,579,681</u>	<u>\$ 409,426</u>

Totals

\$ 856,271
2,444
4,092

(83)
29
100,000
4,025
3,674

970,452

196,414
7,185,085
425,286
956,462
409,426
9,172,673
(6,154,018)

3,018,655

\$ 3,989,107

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2006
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 46,770	\$
Tenant security deposit liability	24,752	
Accrued expenses	20,471	
Deferred revenues	<u>8,426</u>	<u> </u>
Total current liabilities	<u>100,419</u>	<u> </u>
Net assets:		
Invested in capital assets	2,609,229	409,426
Unrestricted net assets	<u>870,033</u>	<u> </u>
Total net assets	<u>3,479,262</u>	<u>409,426</u>
Total Liabilities and Net Assets	<u>\$3,579,681</u>	<u>\$ 409,426</u>

Totals

\$ 46,770
24,752
20,471
8,426

100,419

3,018,655
870,033

3,888,688

\$ 3,989,107

ALPENA HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS**
 Year Ended December 31, 2006
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 427,211	\$
Nondwelling rent	<u>8,624</u>	<u></u>
Total operating revenues	<u>435,835</u>	<u></u>
OPERATING EXPENSES:		
Administration	239,179	
Tenant services	8,912	
Utilities	146,059	
Ordinary maintenance and operation	253,316	
General expenses	60,425	
Depreciation	<u>335,108</u>	<u></u>
Total operating expenses	<u>1,042,999</u>	<u></u>
Operating income(loss)	<u>(607,164)</u>	<u></u>
NONOPERATING REVENUES (EXPENSES) :		
Investment interest income	33,097	
Other income	16,263	
Operating transfers in (out)	23,909	(23,909)
Operating grants	347,738	23,909
Capital grants	<u></u>	<u>45,732</u>
Total nonoperating revenues (expenses)	<u>421,007</u>	<u>45,732</u>
Change in net assets	(186,157)	45,732
Prior period adjustments, equity transfers and correction of errors	220,861	(221,661)
Net assets, beginning	<u>3,444,558</u>	<u>585,355</u>
Net assets, ending	<u>\$3,479,262</u>	<u>\$409,426</u>

<u>Totals</u>	
\$	427,211
	<u>8,624</u>
	435,835
	239,179
	8,912
	146,059
	253,316
	60,425
	<u>335,108</u>
	<u>1,042,999</u>
	<u>(607,164)</u>
	33,097
	16,263
	371,647
	<u>45,732</u>
	<u>466,739</u>
	(140,425)
	(800)
	<u>4,029,913</u>
\$	<u><u>3,888,688</u></u>

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2006
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 437,237	\$
Cash payments to other suppliers of goods and services	(304,742)	
Cash payments to employees for services	(370,102)	
Cash payments for in lieu of taxes	<u>(26,877)</u>	
Net cash (used) by operating activities	<u>(264,484)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	742	
Operating transfers in (out)	23,909	(23,909)
Operating grants	347,738	23,909
Other revenue	<u>13,819</u>	
Net cash provided by noncapital financing activities	<u>386,208</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		45,732
Payments for capital acquisitions	<u>(39,566)</u>	<u>(45,732)</u>
Net cash (used) by capital and related financing activities	<u>(39,566)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>33,494</u>	
Net cash provided by investing activities	<u>33,494</u>	
Net increase(decrease) in cash	115,652	
Cash, beginning	<u>740,619</u>	
Cash, ending	<u>\$ 856,271</u>	<u>\$</u>

Totals

\$ 437,237

(304,742)

(370,102)

(26,877)

(264,484)

742

371,647

13,819

386,208

45,732

(85,298)

(39,566)

33,494

33,494

115,652

740,619

\$ 856,271

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2006
=====

	Low Rent	Capital
	Program	Fund
	Program	Program
	<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF
CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ <u>856,271</u>	\$ _____
Cash and cash equivalents per balance sheet	\$ <u>856,271</u>	\$ _____

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (607,164)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	335,108	
Bad debt allowance change	(265)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(1,076)	
Prepaid expenses	142	
Inventories	5,593	
Increase (decrease) in liabilities:		
Accounts payable	(1,277)	
Accrued compensated absences	986	
Accrued payments in lieu of taxes	991	
Deferred revenues	<u>2,478</u>	
Net cash (used) by operating activities	<u>\$ (264,484)</u>	<u>\$ _____</u>

Totals

\$ 856,271

\$ 856,271

\$ (607,164)

(335,108
265)

(1,076)
142
5,593

(1,277)
986

991
2,478

\$ (264,484)

ALPENA HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended December 31, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	U.S. Department of HUD		
	Public and Indian Housing Major - Direct Program		
2006	Low Rent Public Housing	14.850	\$ 347,738
	Public and Indian Housing Nonmajor - Direct Program		
2006	Capital Fund Program	14.872	<u>69,641</u>
	Total		<u>\$ 417,379</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended December 31, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 856,271	\$
100	Total cash	<u>856,271</u>	
	Receivables:		
125	A/R-miscellaneous	2,444	
126	A/R-tenants-dwelling rents	4,092	
126.1	Allowance for doubtful accounts- dwelling rent	(83)	
129	Accrued interest receivable	<u>29</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>6,482</u>	
	Current Investments:		
131	Investments-unrestricted	<u>100,000</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	4,025	
143	Inventories	<u>3,674</u>	
	Total other current assets	<u>7,699</u>	
150	Total current assets	<u>970,452</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	196,414	
162	Buildings	7,185,085	
163	Furn, equip & mach-dwellings	129,087	
164	Furn, equip & mach-admin.	296,199	
165	Building improvements	956,462	
166	Accumulated depreciation	(6,154,018)	
167	Construction in progress		<u>409,426</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,609,229</u>	<u>409,426</u>
180	Total noncurrent assets	<u>2,609,229</u>	<u>409,426</u>
190	Total Assets	<u>\$ 3,579,681</u>	<u>\$ 409,426</u>

<u>Totals</u>	
\$	<u>856,271</u>
	<u>856,271</u>
	2,444
	4,092
(83)
	<u>29</u>
	<u>6,482</u>
	<u>100,000</u>
	4,025
	<u>3,674</u>
	<u>7,699</u>
	<u>970,452</u>
	196,414
	7,185,085
	129,087
	296,199
	956,462
(6,154,018)
	<u>409,426</u>
	<u>3,018,655</u>
	<u>3,018,655</u>
\$	<u><u>3,989,107</u></u>

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 18,902	\$
322	Accrued compensated absences-		
	current portion	20,471	
333	Accounts payable-other		
	government	27,868	
341	Tenant security deposits	24,752	
342	Deferred revenues	<u>8,426</u>	
310	Total current liabilities	<u>100,419</u>	
300	Total liabilities	<u>100,419</u>	
	Equity:		
508.1	Invested in capital assets	<u>2,609,229</u>	<u>409,426</u>
508	Total equity	2,609,229	409,426
	Net Assets:		
512.1	Unrestricted net assets	<u>870,033</u>	
513	Total equity/net assets	<u>3,479,262</u>	<u>409,426</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,579,681</u>	<u>\$ 409,426</u>

	<u>Totals</u>
\$	18,902
	20,471
	27,868
	24,752
	<u>8,426</u>
	<u>100,419</u>
	<u>100,419</u>
	<u>3,018,655</u>
	3,018,655
	<u>870,033</u>
	<u>3,888,688</u>
\$	<u><u>3,989,107</u></u>

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 427,211	\$
704	Tenant revenue-other	<u>8,624</u>	<u></u>
705	Total tenant revenue	435,835	
706	HUD PHA grants	347,738	23,909
706.1	Capital grants		45,732
711	Investment income-unrestricted	33,097	
715	Other revenue	<u>16,263</u>	<u></u>
700	Total revenue	<u>832,933</u>	<u>69,641</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	146,875	
912	Auditing fees	4,100	
914	Compensated absences	986	
915	Employee benefit contributions-adm.	36,827	
916	Other operating-administrative	50,391	
	Tenant Services:		
924	Tenant services-other	8,912	
	Utilities:		
931	Water	33,579	
932	Electricity	57,696	
933	Gas	54,784	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	129,380	
942	Ordinary maint & oper-mat'ls & other	36,349	
943	Ordinary maint & oper-contract costs	30,567	
945	Employee benefit contributions- ordinary maintenance	57,020	
	General expenses:		
961	Insurance premiums	31,092	
963	Payments in lieu of taxes	27,868	
964	Bad debt-tenant rents	<u>1,465</u>	<u></u>
969	Total operating expenses	<u>707,891</u>	<u></u>
970	Excess operating revenue over operating expenses	<u>125,042</u>	<u>69,641</u>

<u>Totals</u>	
\$	427,211
	<u>8,624</u>
	435,835
	371,647
	45,732
	33,097
	<u>16,263</u>
	<u>902,574</u>

146,875
4,100
986
36,827
50,391

8,912

33,579
57,696
54,784

129,380
36,349
30,567

57,020

31,092
27,868
<u>1,465</u>

<u>707,891</u>

<u>194,683</u>

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
974	Depreciation expense	<u>335,108</u>	<u> </u>
	Total other expenses	<u>335,108</u>	<u> </u>
900	Total expenses	<u>1,042,999</u>	<u> </u>
	Other Financing Sources (Uses) :		
1001	Operating transfers in	23,909	
1002	Operating transfers out	<u> </u>	<u>(23,909)</u>
	Total other financing sources (uses)	<u>23,909</u>	<u>(23,909)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(186,157)	45,732
1104	Prior period adjustments, equity transfers and correction of errors	220,861	(221,661)
1103	Beginning Net Assets	<u>3,444,558</u>	<u>585,355</u>
	Ending Net Assets	<u>\$ 3,479,262</u>	<u>\$409,426</u>

Totals

335,108

335,108

1,042,999

23,909
(23,909)

(140,425)

(800)

4,029,913

\$ 3,888,688

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Alpena Housing Commission
Alpena, Michigan

I have audited the financial statements of the business-type activities of the Alpena Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated May 8, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Alpena Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated May 8, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Standell, CPA

May 8, 2007

ALPENA HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2006

ALPENA HOUSING COMMISSION
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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Alpena Housing Commission

I have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2006, and have issued my report, thereon, dated May 8, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The staff were very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Samy E. Landolt, CPA, PC

May 8, 2007

Barry E. Gaudette, CPA, PC.

CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Alpena Housing Commission

I have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2006, and have issued my report, thereon, dated May 8, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

May 8, 2007

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

December 31, 2006

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Tenant Files

Public Housing Program

06-01 Year Ended December 31, 2006

Condition and Criteria: Documentation to determine **eligibility** is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause: The staff in charge of this program did not obtain all of the documentation recommended for the tenant files, or they did not make sure they were completed correctly.

Population and Items Tested: We selected five(5) tenant files to review using the haphazard method. We selected at least one file from each location to review. There was a population of 193 tenant files to choose from Ad-hoc Tenant Reports provided by the Alpena Housing Commission.

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
December 31, 2006
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Tenant Files (Continued)

Public Housing Program

06-01 Year Ended December 31, 2006 (continued)

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	0
f. Inspection Report	0
g. Lease	0
h. Application	0
i. Copy of Photo I.D.	0
j. Copy of Social Security Number Verification	0
k. Copy of Birth Certificate	0
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	0
p. Declaration of 214 Status	2
q. Check for previous eviction from public housing	1
r. Family Composition Review	<u>4</u>
	<u>7</u>

Out of a possible 90, there were 7 exceptions from this test. This represents an exception rate of 7.78%.

Auditor's Recommendation: It is recommendation that the Alpena Housing Commission correct the documentation in all of the tenant files where possible. It should be noted that the exception rate was extremely low for this program. We commend the Alpena Housing Commission staff on the job they are doing documenting the tenant files.

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
 December 31, 2006
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Tenant Files (Continued)

Public Housing Program

06-01 Year Ended December 31, 2006 (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	P-001-0020-04									
2	P-001-0034-02								x	
3	P-002-0071-08								x	
4	P-003-0122-06								x	
5	P-004-0163-01		x						x	
Number of Hits		<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>
% of Hits		<u>0%</u>	<u>20%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>80%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or it was in the tenant file. It may not be kept in the tenant file unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
December 31, 2006
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Tenant Files (Continued)

Public Housing Program

06-02 Year Ended December 31, 2006

Condition and Criteria: Required **documentation** was either missing in the tenant files, or it is not completed correctly.

Effect: Ineligible tenants may be in the program or the tenants may not be paying the correct rent.

Cause: The staff in charge of this program did not obtain all of the complete and correct required documentation for files.

Population and Items Tested: 5 tenant files from a population of approximately 193 tenant files were tested.

Auditor's Recommendation: Declaration of 214 Status Forms that are properly completed should be obtained for all tenants residing in the units. In addition, a review of family composition should be done for every family annually.

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
December 31, 2006
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Invoice Approval By The Board

Comment: For The Year Ended December 31, 2006

The State of Michigan requires that the Board approve all invoices prior to payment. All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the Charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

The Housing Commission does not approve invoices before payment, but does the following steps: A staff member(noncheck signer), prepares checks using checkwriting software, these checks and invoices are then given to the Executive Director who reviews and signs the checks, then a third staff member then reviews the invoices before mailing them out.

The Board once a month reviews a listing of checks paid since the last board meeting. The Board has the opportunity to question a payment and review the invoice/documentation at the Board meeting. The Housing Commission's check writing and approval process appears adequate to me. In addition to these internal controls, the fee accountant gets a copy of the checks written and a copy of the invoice for capital outlay purchases.

ALPENA HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2006

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.